



Strategic Management Services Division  
P.O. Box 898  
Sacramento, CA 94229-0898  
Telecommunications Device for the Deaf - (916) 795-3240  
(916) 795-3976, FAX (916) 795-1279

September 16, 2008

## **AGENDA ITEM 8**

### **TO: MEMBERS OF THE FINANCE COMMITTEE**

- I. SUBJECT:** CalPERS 2008-11 Three-Year Business Plan  
Semi-Annual Update
- II. PROGRAM:** Systemwide
- III. RECOMMENDATION:** Approval of changes to the 2008-11 Three-Year  
Business Plan and transmittal to the Legislature as  
specified below.
- IV. ANALYSIS:**

The CalPERS Board of Administration formally adopted the CalPERS Three-Year Business Plan (Attachment A) in April 2008. The plan includes business objectives targeted for fiscal years 2008-09 through 2010-11. This agenda item provides the first semi-annual update on the plan, as well as recommended changes for two of the plan's 39 objectives.

Upon approval by the Board of Administration, the 2008-11 Three-Year Business Plan Semi-Annual Update will be transmitted, via the attached transmittal letter (Attachment B), to the Joint Legislative Budget Committee, Fiscal Committees of the Legislature, the State Controller, and the Department of Finance in accordance with the Budget Act of 2007; and the Legislative Analyst's Office and the State and Consumer Services Agency.

### **Completed Three-Year Business Plan Objectives**

This semi-annual update reflects the progress and status of CalPERS 2008-11 Three-Year Business Plan objectives from April 1, 2008, through July 1, 2008. During this period, five business objectives with a July 1 due date were completed.

The Three-Year Business Plan status is as follows:

**Goal I. Exercise global leadership to ensure the sustainability of CalPERS pension and health benefit systems.**

**Objective #1.5 – By July 1, 2008, complete development of a strategy enabling public employers to address other post-employment benefit obligations.**

- **Completed** – The California Employers' Retiree Benefit Trust was established in March of 2007. Currently, nearly 100 public agencies are participating in the program, and interest is continuing to grow. The required strategy was developed and included several significant activities that have also been implemented.

For example, work was completed to identify the most significant needs of employers regarding post-retirement benefits (such as attractive return vs. risk, program education, and assistance in measuring OPEB liabilities, and an administratively simple program). In addition, CalPERS sponsored legislation and obtained legal authority to provide these services to all public employers.

**Goal II. Foster a work environment that values quality, respect, diversity, integrity, openness, communication, and accountability.**

**Objective #2.5 – By July 1, 2008, implement a recruitment and retention strategy, including effectiveness measures that ensure competence and diversity of staff.**

- **Completed** – A recruitment and retention strategy has been developed that includes numerous recruitment activities, such as ongoing partnerships with colleges, local governments, and other State agencies; participation in public recruitment events; and evaluation of online employment applications. Retention strategies include implementation of employee enrichment activities (health-related programs, personal safety workshops, recognition programs, etc.).

Competence strategies implemented include development of new hiring tools; manager training to assist staff with upward mobility; launch of the CalPERS Career Planning Center; and a new employee on-boarding tool. Completed diversity strategies include expanded diversity training for staff and management; targeting diverse candidate pools with special advertising; and participating in recruitment events for specific diversity organizations.

**Goal VI. Administer pension benefit services in a customer oriented and cost effective manner.**

**Objective #6.2 - By July 1, 2008, implement at least three of the Customer Service Initiatives as outlined in the Customer Service Plan.**

- **Completed** – The Customer Service Experience enterprise team identified 26 areas for expanded online member and employer products and services. While many were postponed to wait for advanced PSR technologies, several new online tools have been implemented. The most significant implementations were the launch of both my|CalPERS and the Customer Education Center. These services expand online access to member information and online member and employer classes. Other online service debuts include the ability to check disability retirement application status, the option to select electronic annual member statements, a new retirement estimate calculator for Judges' Retirement System members, and information security enhancements.

**Objective #6.3 - By July 1, 2008, establish target customer service and satisfaction levels for members and employers.**

- **Completed** – Several target customer service and satisfaction level measures have been established for members and employers, which are reported to the Board each quarter at the Benefits and Program Administration Committee. They include metrics on service credit requests; speed of payments and claims processing; call center times; overall satisfaction with the Interactive Voice Response system and phone agent service; and others.

In addition, implementation of a strategy to improve the process for escalating and monitoring customer calls from the call centers to program areas, as well as enhancements to cross-divisional interaction to reduce inquiry response time is underway. Starting in June 2009, the second phase of the strategy will create measures to validate effectiveness of these improvements.

**Goal VIII. Manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first, to pay benefits and second, to minimize and stabilize contributions.**

**Objective #8.1 - By July 1, 2008, establish a Board approved asset allocation policy and actuarial methodologies that, in light of the primary goal to achieve fully-funded status, strikes a balance between expected average annual employer contribution rates and stable expected average annual changes in employer contribution rates.**

- **Completed** – In November 2007, the Board participated in the Asset Allocation Workshop where a new asset allocation strategy was developed. This strategy was approved at the December 2007 Board meeting. The new allocation included the addition of an inflation-linked asset class which allows CalPERS to participate in investment opportunities in infrastructure, commodities, inflation-linked bonds, and forestland. Implementation of the new allocation is currently being implemented by the Investment Office. Of the four asset allocation components, the final and most recent Board-approved policy was related to infrastructure. Provisions of the policy allow for the allocation of up to 5 percent of total CalPERS market assets to both public and private infrastructure through 2010.

### **Proposed Business Plan Objective Changes**

Due to shifts in enterprise business direction, changes are recommended for two business plan objectives.

#### **Goal I. Exercise global leadership to ensure the sustainability of CalPERS pension and health benefit systems.**

**Objective #1.3 – By July 1, 2008, complete the development of a Health Information Technology strategy to achieve universal electronic data exchanges amongst and within all CalPERS health plans within three years.**

- *Delete Objective* – Due to ongoing discussions on CalPERS Health Program strategies and direction, staff are re-evaluating the approach to a Health IT strategy. As a result, the objective is no longer valid and staff recommend the objective be removed from the plan.

**Objective #1.4 – By July 1, 2008, develop criteria for a Health Value Index to identify and evaluate promising health care innovations with potential to improve quality and lower costs for our members.**

- *Delete Objective* – Due to ongoing discussions on CalPERS Health Program strategies and direction, a new approach to evaluating health care innovations is being developed. As a result, the Health Value Index will not be developed in the near-term and the objective is no longer valid. Staff recommend the objective be removed from the plan.

### **New Objective Status Reporting Tool**

Previous Three-Year Business Plan updates were designed to report on completed objectives only. To better monitor progress and ongoing status of all plan objectives, a new reporting tool utilizing an objective “stoplight” dashboard (Attachment C) was developed. This summary uses green, yellow, and red stoplights, similar to the customer service performance measures currently reported to the Board each quarter. For business plan status, the stoplight definitions include:

- Green – On target or trending to target
- Yellow – Need to watch trend
- Red – Senior Management attention needed

Currently, two objectives are reporting as yellow.

#### **Objective #12.1 – By December 31, 2008, consistent with the CalPERS “Partnership for Change,” maintain publicly available standardized hospital quality and cost efficiency data to help make informed health care decisions.**

- *Yellow Status* – As reported to the Board in February 2008, this objective has been partially completed. Cost information will be available through the Hospital Value Initiative (HVI); however, the HVI Project is on hold pending resolution of an anti-trust issue currently before the Department of Justice. While no timeframe for a DOJ decision is available, once it is resolved, the HVI Project will need to re-engage with hospitals to move forward. Based on status at the time of the next Business Plan update, a recommendation to revise the target date or delete the objective may need to be considered.

#### **Objective #12.2 – By December 31, 2008, increase the number of purchaser covered lives (i.e., number of covered lives represented by the organizations in the Partnership) endorsing the CalPERS “Partnership for Change” to 6 million.**

*Yellow Status* – The CalPERS Partnership for Change has focused its resources on the Hospital Value Initiative (HVI), which is currently on hold pending a DOJ determination of an anti-trust issue (see Objective 12.1 above). Once the HVI information is publicly available, the Partnership for Change will resume its membership recruitment efforts. Based on status at the time of the next Business Plan update, a recommendation to revise the target date or delete the objective may need to be considered.

**Conclusion**

Of the 39 objectives in the CalPERS 2008-11 Three-Year Business Plan, five have been completed and changes have been recommended for two objectives.

Work related to the 11 objectives with a December 31, 2008 target date is in progress. The status of these objectives, as well as the dashboard for all objectives, will be reported at the February 2009 Finance Committee meeting.

**V. RESULTS/COSTS:**

Cost and resource needs associated with the projects and other activities identified in the Three-Year Business Plan have already been allocated.

---

KAMI NIEBANK, Chief  
Strategic Management Services Division

---

JOHN HIBER  
Assistant Executive Officer  
Administrative Services Branch

Attachments